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SUBJECT: Investors Ignore Politics, Snap up State Bank Shares

¶11. (SBU) Summary: The Privatization Authority sold 24.98% of state-owned Halkbank through an Initial Public Offering (IPO) and raised a total of \$1.8 billion. Foreign institutional investors, mostly from the Middle East, reported purchased 69.5% of the shares. Privatized shares began to be traded on the Istanbul Stock Exchange May 10. The Halk Bank IPO was a required prior action for the IMF's 6th review which will go to the IMF Board May 18. At a press conference, Minister of Finance Unakitan said political stability was important for economic stability, and that the strong foreign participation in the IPO in an election year showed that foreign investor confidence in Turkey continued. The politically-sensitive partial privatization of Halk Bank despite election-year politics, underlines the Government's commitment to the privatization program.

End Summary

¶12. (SBU) The Privatization Authority (PA) had announced on February 6 that the GOT would opt for an IPO for a 25 percent stake instead of a block sale of a majority stake in Halkbank, Turkey's second-largest state-owned bank. This controversial decision, which ran counter to IMF and World Bank preferences, was attributed to election year politics. Government officials argued that it would be easier to explain an ultimate block sale to the public if a market price were established first by means of a minority share IPO. Business groups were critical of the block sale, fearing a new private owner -- especially a foreign one -- might not act in the interests of small businesses.

¶13. (SBU) The Halk Bank IPO was priced at the top of the permitted range at YTL 8(\$6) per share. Finance Minister Kemal Unakitan, Privatization President Metin Kilci and Halkbank General Manager Huseyin Aydin jointly announced the results of the IPO at a press conference on May 7, 2007. Unakitan announced receiving a total bid of \$12.9 billion of which only 14.6% could be met. The price gave the whole bank a market value of 10 billion lira. Turkey raised a total of \$1.846 billion. Foreign institutional investors purchased 69.5% of the shares. Unakitan claimed that 230 institutional investors from 20 different countries placed bids; including investors from the UK, U.S., Europe and Middle East. The Minister also announced that the Kuwait Investment Authority bought 10 percent of the shares.

¶14. (SBU) A PA Vice-President told us that the highest number of bids were from U.K., followed by U.S.-based funds. He said the reason they highlighted the Kuwait Investment Authority was because that was the first time Gulf money came to the banking sector in Turkey. The PA V.P. was very proud of the success of the transaction, saying it was the largest IPO in Europe since 2004. On May 10 Halk Bank shares began to be traded on the stock exchange. In its first

morning of trading Halk Bank shares constituted 70 percent of the entire exchange's transaction volume and the price per share increased 7.5%.

¶15. (SBU) Halk Bank is Turkey's second-largest State-owned bank. It was established to lend to medium and small sized enterprises. The bank earned a YTL 863 million profit in 2006, a 56 percent increase from a year earlier. Completion of the IPO is a required prior action under Turkey's IMF program. In the press Conference Finance Minister Unakitan said that during the AKP government's period in office, privatization proceeds would exceed USD 23 billion and despite the elections the privatization program would continue. The Minister noted that it took a long time to establish an environment in which investors had confidence in Turkey, and the Government would not deviate from prudent economic policies. Unakitan noted that the strong demand for Halk Bank shares underlined investor confidence in Turkey's democracy and post-election economic stability.

¶16. (SBU) Comment: The successful IPO was encouraging both for local and foreign investors and showed that despite the recent political tension, investors attach importance to Turkey's improved economic fundamentals. Banking assets have been particularly attractive, given the room for growth in Turkey's underbanked economy. This IPO, coming on the heels of the Izmir port privatization announced a few days earlier, also demonstrates the Government's commitment to continuing the privatization program, despite election-related postponements of other privatizations. The IPO represents the first step in the long-awaited privatizations of state banks, which have suffered from several false starts and problems, and have been more politically-sensitive than state sales of industrial assets. End Comment.

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